ORGANIZATION, DISTRIBUTION, AND WAGES

Although the most noteworthy event in the industrial scene, since liberalism gave up hope of being a program and became an attitude instead, is the spread of organization, throughout production, in banking and among the laborers, nevertheless the dominant distributive analysis has not been substantially affected or revised. The most widely used texts still proceed on the assumption of individual action, and individual bargain; and their picture of economic distribution is an equilibrium established at the various margins of action of ungrouped individuals. In fact, individuals have in many ways come to act with other individuals and exert their influence as a member of a group with a common policy and a single welfare, to which group they give their trust. Do not these changing manners of the times necessitate somewhat different theorizing?

A brief reconsideration must first be given to the nature of the continuous processes of industry by which the distributive fund is brought forth—and since under our present system the lead in the inauguration and development of industrial enterprise lies with the capital controlling members of the community, let us begin with them. These industrial leaders combine in themselves the experience and ability to engage successfully in industry, as industry is now arranged, and the possession or the control over the capital with which industry is started and carried on. It is a union of particular capacity with, at least, moderate good luck. Capital in the hands of these men takes on an energizing influence that at times is bewildering, until it almost seems as if capital put in any hands would have the same effect. The question after all is really, How rare is the gift of able and constructive industrial direction, and what is the best means of calling it into action? With any fair break in the modern world of industry, we may hope, without over-optimism, for enough of this capacity to apply our capital resources with fair satisfaction, though there is nothing axiomatic about it. But neither should we overlook the power that lies, it may almost be said, in our material and immaterial capital resources themselves. Our estimation of that magic power is constantly being expressed, for instance, in such views as the one that all the potential industrial strength of Russia or of China needs only the application of capital and peace, to start developing into actual production. We have begun to take for granted that there

is enough industrial talent to go around and to treat the capital as possessed of power within itself.

In most general studies of distribution a double standard in regard to capital may be found. This is well brought out in Professor Taussig's *Principles.* First there is the primary definition of capital as "concrete instruments made by man."[1] This represents the pure logic of definition. It is conceived in the course of an analysis of the factors of productiveness. The movement of decisive definition is taken as a path out of the "haziness of everyday usage" which connects capital with its external marks of private possession and indefinite form. To quote: "An individual thinks that to be capital which yields him an income."[2] His second definition of capital is of a functional nature and adopts, on the whole, the standpoint of action. Capital can be viewed as "a series of advances to laborers."[3] Probably this is the aspect of capital which interests Professor Taussig most, if we recall his *Capital and Wages.* Are these two notions of capital entirely reconcilable?

Capital, it will be agreed, is accumulated power of the sort that serves to set industry going. It is the force behind the "roundabout process" in an older phrase. Can that force be identified with any or all of "the concrete instruments made by man"? In a community of primitive industrial ways the connection is evident. The extent of industry is greatly modified and almost governed by the accumulation of such instruments, for they are made slowly and added to slowly. They are the most important form that the accumulated wealth of the community has assumed. The dependence of industry on them is very great. That type of power which capital is, in such a community, is clearly vested in these concrete instruments. But in a community of more diversified economic resources and, above all, in a community where many other forms of property besides concrete instruments made by man, have economic value, we cannot hold that the idea of capital power is limited to these concrete instruments. This is all the more true when, by organization of the banking methods, property rights in general are made more certain and more liquid. Here we have many sources and springs of capital power. It may be that this was the great truth behind all the reasoning of Friedrich List and his school.

1 F. W. Taussig, *Principles of Economics,* vol. II, p. 4.

2 *Ibid.,* vol. I, p. 183.

3 *Ibid.*

The truth of this contention is brought out by a rough study of the way in which capital is actually applied in industry. What is meant by the statement that runs so easily off our tongues, that capital finances and supports the industry of a country and is most essential to it? Ordinarily, we grasp a train of events such as the following: A collection of individuals perceive an industrial opportunity. They thereupon seek the means of hiring the labor and buying or making the machinery necessary for the conduct of the enterprise. The labor must be available somewhere in the community, of course, and either the machinery or the means of making it—as to the last, it is generally a matter of indifference which. The concrete instruments are no longer the essential form of capital. The roundabout process has proven to be, on the whole, easy of creation. The men who are aiming to undertake the business, require simply in some acceptable and negotiable form the power to employ the forces of production. What economic value stands as the basis of this power may be most varied and indefinite, but the explanation of the efficacy of this collected capital lies far away from the possession of concrete instruments. And this conception of the way in which things work can be applied to the whole industry of a nation, without much modification. Past accumulation of concrete instruments of production does actually play an important, but by no means an all important, part.

For there are in existence many ways in which all that is necessary to commence production can be obtained, if one has the standing, and does not intend to use the power obtained in such a way as to injure the forces on whose prosperity the whole system seems to depend. The whole of the resources of organized banking are subject to command for purposes such as these; borrowings can be made irrespective of all concrete instruments—borrowings indeed that go far beyond the banks' holding of gold and real security. As Moulton writes, " . . . the gradually expanding volume of bank currency it must be recalled, which is available equally with money for the manifold activities of business has made it possible for business men to secure the funds with which to induce human energy to create capital goods without antecedent saving on the part of consumers."[4] The banks are said to have created four to five billions of bank credit thus far in the course of the government war loans, so great is their power when organized into a system.

4 "Commercial Banking and Capital Formation," in *Journal of Political Economy,* vol. IV (Nov., 1919), p. 869.

If the project is one of size, it will probably assume the form of a corporation, putting out its shares in the investment field, through some investment house, which in turn redistributes the shares by sales to banks and individuals. A large part of the capital that is contributed by this method of finance, is, as in the case above, credit created by the banks on the partial security of a great variety of values of a socio-legal sort; mortgages on land, credit extended on Liberty bonds, etc. In the face of such facts, we can say that the capital collected for any enterprise will have but the most flimsy relationship to any concrete instrument made by man, or to all such instruments. It is the word of command, backed by the power to pay. Part of it may be pure bank credit, another part may be simply the government's promise to tax its citizens. Russian bonds gave employment to French, German, and American munitions plants, but may never pay them. It is, therefore, evident that the best depreciation fund may be shares in an insurance company or a land bank.

More significant is the fact that the capital fund thus at the service of industry has reference to the future as clearly as to the past; its continuing existence is, in fact, entirely dependent on the future success of the enterprise. It is by giving this fact its due importance that the concept of capital as held by the wage fund theorists, and as given in Professor Taussig's second definition, can best be improved. In addition, we see that the available sum of capital varies greatly in extent and ease of use, according as the banking system makes accumulated wealth (anything of economic value) liquid. Its sum changes with the sentiment and confidence of the business community, and its liking for risk taking. To the extent that new industry is created by the agency of these operations of organized banking, it cannot be said that their final effect is simply inflation. As Professor Laughlin writes:

> The true order of events is as follows: Transaction in goods, then loans based on their movement and sale, and finally the accumulation of a proper reserve. As compared with forty years ago, the loans of our national banks are at least six times as large as then. Does this imply inflation of credit? By no means. It indicates that the production and exchange of goods has increased many-fold in our country and that a correspondingly increased basis exists for sound credit at the banks.[5]

This presupposes what is generally true of any modern industrial community, that the course of growth signifies a large amount of

[5] J. Laurence Laughlin, *Money and Prices,* pp. 147-8.

unutilized industrial power that can hardly be expressed statistically, but which is normally on hand for the service of any new undertaking.

This development introduces some change into the common interest analysis, no matter which of the explanations of interest one chooses to defend. Certain of the commonest appurtenances of reasoning must be given up in any case. If the banking community has, with its organized methods, come to play such an important part in the initiation of industry, by active guidance and more of the capital power, the explanation of the rate of interest cannot run in terms of individual psychology, but depends on all the complex factors of the banking situation. The individual psychology of accumulation and risk taking is but one of these and perhaps not the most important. This is true even of long-time investment, which is generally chosen as the abstract capital use. Further, if the banking faculty is so important in these matters, does not the marginal analysis diverge dangerously far from reality? We have more to deal with than the psychology of the individual from which marginalism is generally deduced. It strains the imagination too much to summarize the actions of the Federal Reserve Board in a straight line, though the mathematical philosophers try stranger things. It is not difficult, of course, to acquire a knowledge of the main principles on which the banking community conducts its business; but it is more than doubtful whether diagrammatic illustrations of the margin are useful representations of these principles. And, as is plainer in other parts of the distributive field, the greater the extent of organization, the less verisimilitude of the marginal idea.

To proceed, then, with the study of production of the distributive fund: what capital is, in essence, is a good or bad promise by which men can be set to work and by which the use of machines can be procured (whether they are bought, rented, or made). This is very close to the idea of capital "as a series of advances to laborers"—with the one great adjustment of viewpoint hinted at before. The concept of capital as "a series of advances to laborers" has been applied ordinarily from a point of rest. All the processes of industry seem to be awaiting the first order to advance. In reality, naturally, we are dealing with a going process, which is continuously restoring the fund it consumes, or more. That is why it may be said that the concept of capital has reference to the future, equally with the past. Going industry de-

posits in the path of its growth an enlarged capital fund. Indeed, there are times in which the alternative becomes—expand or fail. Here is the vigor of accumulation. The entrepreneur's function is equally continuous (lest this seem to support Professor Clark), in the sense that the need of his ability and forehandedness is lessened only in exceptional cases.

It is in the study of the division of the total output of the industrial process that the importance of organization becomes manifest. The first step in this study is normally to reduce the problem of distribution to the distribution of a marginal product, by disposing first of the rent factors through such steps as the Ricardian analysis and the device of the representative firm. As Professor Kleene writes: "The character and the terms of the division between capital and labor constitute the most controversial matter in the theory of distribution. That, however, it is a matter of dividing a marginal product, the margin being thought of as both an intensive and an extensive land margin, has come very near being universally accepted."[6] Before agreeing, we must consider again whether there is anything present to obstruct or gravely modify the theoretical action at the margin. If organization is present to a sufficient degree, it will prove to be such an obstruction. For purposes of illustration we may take a few cases in which organization among the holders of certain tracts of land has been used to increase rents. Such a case is that of the combination of cranberry lands in New England. It is true that this took the form of price restriction, but since only current wages were paid, it is safe to assume that the added profit of the industry was soon reflected in the increased value and rental of the cranberry lands—though, of course, difference of value and rental still existed among them. Or take the case where the owners of certain sites necessary to the construction of a public utility, by agreement, held the sites for higher rent or a purchase price higher than they would have received in the normal course of events. It is perhaps not entirely without significance that the first combination was forbidden under the Sherman act and the latter met by the right of condemnation. We have in such cases as this something not much different from monopoly rent; and from this point of view monopoly is but a form of organization; and monopoly rent finds no place in the marginal analysis. How far, indeed, the major problem of distribution is the problem of distribution of a

[6] G. A. Kleene, *Profit and Wages*, pp. 159-60.

marginal product depends on the extent to which the various claimants to part of the distributive fund are organized; on the one hand, to the extent to which the rent-receiving group have some strong control of the other classes by which they can exact more than the amount that is allocated due them, on the assumption of freedom of competition and complete mobility, as in Irish rents at the beginning of the nineteenth century; on the other hand, and more significantly, on the extent to which those groups who ordinarily receive little in the nature of rent can, by organization and unified resistance, take for themselves part or the whole of the rent fund, as exemplified by the movement among the British coal miners to force nationalization of the coal mines (payment for capitalized value of present rents being planned).

As representative of the analysis of the problem of the distribution of the marginal product, Professor Taussig's marginal discounted productivity theory may be chosen as one which was most illuminating to the writer. A brief summary is permissible, so that it may be characterized. In this study of distribution antecedent discussion is given to the forces which determine the rate of interest, and a preliminary independent determination of the rate of interest is reached. The forces studied are summarized in the supply and demand situation for capital; and into this framework any of the most accredited theories of interest could be fitted, as well as the productivity theory to which Professor Taussig antecedently inclines. We have a study of the amounts which must be paid for the use and risk of varying sums of capital. This is a step of the highest importance, for the whole problem of distribution comes down to the question of how positive and independent one believes the determination of the share that goes to any factor, capital for example, to be. If the marginal action is dependable and important, and not subject to constant and easy change, we have the assurance that what the simple diagram shows must be paid for the use of capital in the long run will be paid, and the rest is left for wages. If it is fact, it is also simple arithmetic. And indeed, this same fundamental simplicity of idea underlies most of the general theories of distribution, whether we consider Ricardo's wage fund, Bohm Bawerk's theory, Walker's residual analysis, or Taussig's marginal discounted product. This is no doubt due to the fact that they are all attempts to synthesize into a unitary conception the whole struggle of distribution and stand besides, as analyses, that will be little affected by time.

These conceptions are all means of prediction of the outcome of distributive struggle, since they are a collection of its laws.

These syntheses are so simple, largely because the facts are unduly simplified, and sometimes arbitrarily thrust into categories. An attempt has already been made to show how the question of the provision of capital to industry far transcends the demonstration from individual psychology that stands behind the marginal analysis, due to the spread of organized finance. Perhaps the world of ploughs and farmers has been outgrown in other ways. One thing at least is certain, and that is that no one general outline of distribution will ever apply generally to the industrial situation in different nations at different times, even if it estimates correctly the relationship of facts and forces on which it was originally based in course of reason, for these facts change constantly in different times and different social structures. One theory will fit but one universe. Does it not make a difference if the balance of industrial power shifts? That social classes change their preconceptions? Are not these fundamental terms?

For economics is a study of forces which in their constant change leave few certainties and which in course of time accomplish revolutions. Attempts at the representation of such forces by a collection of straight lines and attempts at explanation as a problem in mechanics must fail, for they substitute a mechanical world for a real one. To the degree in which social and economic life is a life of habit, we may have laws of habit. To the degree that an old order succeeds in avoiding change, we may be able to discern roughly the principles in accordance with which the old order acts. But in the measure that individuals study and develop ideas of change, to the extent that new human institutions are conceived and old ones revised under the stimulus of a changing external universe, to the extent that unfilled desire seeks to erect new structures and acts in new ways, no economic theory can be final, but must express these processes of trial and test.

The question whether labor organization has changed the terms of the distributive problem has yet to be considered. As the problem has been summarized, it is one regarding the division of a fund whose size may be greatly affected by the outcome of the distributive bargain; as when J. A. Hobson argues that if a greater portion of the fund went to the laborers, it would be a direct step to greater output and a first step to the avoidance of periodic de-

pression; or as when Professor Carver argues that anything which obstructs or threatens to obstruct accumulation as it goes on today is usually a drag on future production. These are the significant consequences of the distributive bargain, which should not be lost sight of, yet which need not enter into the analysis at present. Nor should the problem of the relation of the distribution of wealth to the distribution of welfare be entirely forgotten either.

In the play of distributive division, when regarded without abstractions, there appear a highly diverse number of participants. It may be permissible to develop a general theory of wages when one is primarily concerned with the interest problem, but this same general theory of wages is not sufficient for the wage problem. Further, while the unity of interest between all parts of that resource we call capital, seems at first sight beyond challenge, even this may be a deduction from the homogeneity of power possessed by all its parts, rather than from the deeper economic facts. The good fortune of one part of the capital fund may not necessarily denote the good fortune of all the other parts. Our reasoning may have been obscure. For example, a difference of interest may exist between those masses of capital lent passively for investment and those which are the personal possession of the directors of industry. Or such a difference as is suggested by the dispute about the Federal Reserve act, the point at issue being whether the rediscount privilege was to be extended to stock exchange securities, due to the effect of such a privilege on commercial credit. Again, the century long alienation between the farming regions and Wall Street is provocative of thought. In short, it is far from easy to declare the measure to which unity of interest, and diversity of interest exists between the various parts of the capital resource. The unity may be one of a social class, rather than one established by economic analysis, which means that the unity would be most apparent when it is opposed to the social classes that stand apart, and least apparent when within the confines of its own conference table.

So it is with labor. The interest of all men who receive wages or salaries seems most nearly common when it is contrasted with that of the rent and interest receiving classes. The opportunities for mutual aid and common resistance overshadow all else. This is most clearly revealed when the interest problem is being studied, and labor is for the time being assumed to be a homogeneous mass, like machinery, divested of human quality. But when the problem

of primary interest is that of wages, the concept of general wages is put in the background as a helpless abstraction, and the partitions within the field of labor become significant. Their existence needs no better proof than the fact that only the far-sighted leaders never lose sight of the fundamental and effective unity, and develop their policy upon it; the less far-sighted have too often forgotten it and have seen only the partitions, which indeed may sometimes be of the first importance, just as when the field of banking a long-time interest rate is of remote interest to the broker transacting a "call loan."

The suggestion of non-competing groups lies at hand. But it does not satisfy all the requirements, as ordinarily these are put forward. In the first place the possibility of the existence of such groups among the capitalists is rarely suggested. In the second place, due to the hard, unplastic nature of the concept, when once the groups are assumed, the idea of community of interest in certain respects and divergence of interest in others is usually lost. The group is given too great homogeneity within itself, too little kinship with the outside. They are part of an industrial structure that is more regular and logically constructed than the one we are acquainted with. We need not look beyond the difficulties of the census.

It is more difficult than might be expected to earmark a group —to point out exactly what makes it a unit in the play of distribution, or justifies our submitting it as a unit to the test of "reciprocal demand." A moment's thought suffices to reveal the inadequacy of static differences such as those of skill or education. How compare these qualities in a clerk and a pugilist? Furthermore, judgment must be formed with regard to precisely how great the isolation of any group must be to make it a non-competing group. Certainly the fact that exceptional individuals find passage from one group to another makes no difference in the reasoning. Nor, in truth, does comparatively substantial but slowly acting transfer radically affect the difference of interest in the distributive bargain. The pull of each group in the total product remains relatively independent.

Unity of bargaining or, in other words, organization seems the most decisive influence in group division today. Even where only partial unity in bargaining exists, its influence tends to be the telling note, as in a craft where there is a strong union, but one to which only a part of the workers belong. The frequency with which

even the formally unorganized act in unity, in times of strikes, makes the scope of the influence of unionism still less definable. Lastly, we are witnessing many signs of the beginning of organization among groups traditionally exempt from the course of organization as among the technicists of industry and school teachers, which may be indications of a movement towards fairly universal organization.

What alteration this spread of organization compels in the non-competing group reasoning will be discussed shortly. But it is worth while to call attention to certain other features of the situation beforehand. First, it must be pointed out that even though unity of bargaining has tended to become the decisive influence in separating groups or combining them, the underlying forces which bring men into one group or another, which determine the size of each group, are still in the highest degree deserving of study. The very fact of considerable movement between the groups is the basic reason probably why the labor movement does not disintegrate into separate parts. Where a movement is obstructed artificially, the situation becomes tense. Secondly, there exists a considerable degree of mutual influence between the groups (aside from the occasions of common interest). For, while it is probably permissible to say that in the conflict of claims on the national dividend that are put in by the several groups of wage-earners, and by the several groups of rent or rent receivers, there may on occasion be no more unity between two groups of labor claimants (we may cite here Davenport's conflict between the advertising and sales groups and the mechanics) than between a labor claimant and an interest-receiving group—we must recognize the existence of a scale of customary relationship between groups of the same kind. This scale of customary relationship between the income and standard of living of various labor groups tends to take on a validity of its own, as when Justice Higgins applies it as a principle in the Australian arbitrations. This goes on, though disinterested reasoning may show that it means a topsy-turvy justice, and a world in which those who do the most work and the most despised work frequently get the lowest pay. It comes about that a wage-earning group feels justified in aiming at an increased share of the national dividend, because their position relative to some other wage-earning group has changed, professors to carpenters, for example. The same notion may exist in the field of capital. Lastly, we must remember that organization is taking

place today not only on the horizontal scale, traditional to the non-competing group idea, but also, and perhaps in a dominant degree, on a vertical scale, as in the combination of the seven groups of building laborers or that of all the mine workers in the United Mine Workers.

Without losing sight of these factors, then, the question of the significance to our reciprocal demand reasoning of labor organization may be taken up. The primary object of labor organization is to unite the members of a group in such a way as to enable them to use their combined influence in their own behalf, and for their wider objects. The chief peaceful method is collective bargaining; its principal combative instrument is the strike. Too narrow an interpretation should not be put on the trade union movement. We must recognize, in the terms of Professor Hoxie in his most admirable book, that "the trade union program, or rather the trade union programs, for each trade union has a program of its own, is not the handful of unrelated economic demands and methods which it is usually conceived to be, but it is a closely integrated social philosophy and plan of action. In the case of most union types, the program centers indeed about economic demands and methods, but it rests on the broad foundation of the conception of right, of rights, and of general theory peculiar to the workers, and it fans out to reflect all the economic, ethical, juridical, and social hopes and fears, aims, attitudes, and aspirations of the group. It expresses the workers' social theory and the rules of the game to which they are committed not only in industry but in social affairs generally. It is the organized workers' conceptual world."[7] This does not prevent us, however, from centering our interest upon the significance of organization in those negotiations through which distribution is effected.

Organization means the power to sell the services of the group as a unit or to withhold these services as a unit. This fact gives an altogether new twist to our reciprocal demand theory. Since terms are arranged between groups on the basis of the group importance or nothing, it cannot be said (as Professor Taussig says), that "the marginal contribution from any grade or group of labor determines the remuneration of all within that grade."[8] A group that bargains as a unit bargains not with the importance due to its marginal unity but with the importance of its total utility. It is

[7] Hoxie, *Trade Unionism in the United States,* p. 280.

[8] F. W. Taussig, *Principles of Economics,* vol. II, p. 151.

the strategy of mass. The group makes of its strength as a group. From this it appears that there are no clear limits to the demands that can be made by any group, when it is wholly organized, except the opposed demands of similarly organized groups—up to the minimum supply price of each group or factor. Furthermore, this minimum supply price itself may vary with different amounts of the group services; and so may undergo modification of character under the pressure of groups sufficiently dominant to usurp in part the functions formerly held by the groups under pressure. Our problem is of greater import than that of the division of the economic rent of industry. Industry is capable of conversion of form within limits; it is not difficult to conceive it as disclosing a will to dispense with highly paid salesmen, advertising men, and other such competitive labor. All other elements of the problem appear to be secondary to that of organization. Any rare natural capacity, if needed, must still retain a relatively high value; the costs of education will have to be repaid, in so far as they remain individual costs, but these become secondary; scarcity itself may become secondary when weighed against organization. A group, though numerically large in view of the tasks it performs, is not weakened thereby, if it has the alternative of cutting down the hours of labor. The limit of this alternative, of course, is the integral nature of production.

Labor organization must take a leading place in any study of distribution. Professor Carver has explained this aptly:

> Even in an unbalanced situation, while the individual in a large class may be superfluous, the class as a whole is indispensable. There may, for example, be as many ditch diggers as to make any individual among them superfluous, nevertheless ditch diggers as a whole, may be indispensable. . . . The indispensable class if it can bargain as a unit can take advantage of its indispensability and bargain to its advantage.[9]

The limits within which this influence may be confined have been indicated. It has been pointed out that the general limit to the measure in which any group can press its own strength is the need that each group has for the rest, taking into consideration the possibility of substitution. Another type of limit is indicated by the fact that to assume complete finality and unity of organization is an error of the same order, though of lower degree

[9] T. N. Carver, "Four Labor Programs," *Quarterly Journal of Economics,* February, 1919.

perhaps, than to abstract from all organization. These two factors, setting up a modified concept of supply price and the force of custom, suggest the limits of influence of organization.

But the question of the limit of influence is not of the greatest importance practically. The real significance of the power obtained by groups in organization is in the fact that the largest groups—the lowest paid groups of the unskilled and uneducated—may prove relatively the least dispensable. The promise of the situation for social readjustment arises from the very fact that for these groups there exist only small possibilities of substitution. Besides, when organized, they will be in a very strong position to oppose substitution. Even about this conclusion, one cannot afford to be cocksure, but many of the great elementary facts seem to argue that these lowest groups are those of indispensability. It is they who have the most to gain by organization, and it is they who will have the strongest place from which to urge their interest, once they are organized. These groups are hardest to organize and keep organized; yet their future lies in organization.

We have come very near to Marx's idea of war between the classes, though economic analysis apparently reveals more than two classes and indeed makes room for the middle class. The vital facts of social unity or the course of revolution may after all combine all classes into the two classes of his historical drama, at least temporarily, though facts in England point rather the other way. Indeed, many parts of the world are not entirely free from the struggle he looked forward to. Only if men prove as brave and generous in peace as they have proven in war, can we avoid all the bitterness of the Marxian world; only if the large classes that get strength in organization develop great leaders and trust them; only if the rest of the world shows understanding. A larger place must be made for justice and a smaller one for social necessity. We are back again to our analogy with politics. Economic groups, as well as nations, will be able to live in peace only if they plan for peace and set to work deliberately to map out the principles on which it can rest. The answer is the same to both problems of society.

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